INVESTMENT COMPANY INSTITUTE

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Recent Reports Discussing Effective Risk Management Practices In The Financial Services Industry

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TO: CHIEF COMPLIANCE OFFICER COMMITTEE No. 19-08
SEC RULES COMMITTEE No. 83-08
SMALL FUNDS COMMITTEE No. 31-08 RE: RECENT REPORTS DISCUSSING EFFECTIVE RISK MANAGEMENT PRACTICES IN THE FINANCIAL SERVICES INDUSTRY

During recent meetings of the Institute's Chief Compliance Officer, SEC Rules, and Small Funds Committees, members have discussed the increasing focus on risk management practices. In light of the interest in this topic, the Institute thought its members might be interested in two reports published earlier this year that evaluated the effectiveness of risk management practices during the recent market turmoil. Each of these two reports is briefly discussed below. In addition, members may be interested in a 2007 report published by the ICI's Risk Management Advisory Committee (RMAC) that discusses the role of Chief Risk Officers in mutual fund organizations, including their backgrounds, roles and responsibilities, and interaction with other members of senior management. A copy of the RMAC report is attached.

The Senior Supervisors Report (March 2008)

In March, the Senior Supervisors Group issued a joint report assessing risk management practices among a sample of eleven major global financial services organizations. [1] This report focuses on:

- The role of senior management oversight in assessing and responding to the changing risk landscape;
- The effectiveness of market and credit risk management practices in understanding and managing the risks in: retained or traded exposures; counterparty exposures; valuing complex and increasingly illiquid products; and in limiting or hedging exposures to credit and market risk; and
- The effectiveness of each firm's liquidity risk management practices in assessing its vulnerability to that risk in a stressed environment and in taking appropriate action.

A Briefing Paper From The Economist Intelligence Unit (June 2008)

In February, the Economist Intelligence Unit of the The Economist conducted an online survey of 167 executives of the financial services industry worldwide to find out the state of their organizations' governance, risk, and compliance functions. The survey findings, which were supplemented by in-depth interviews with the executives were published in June 2008. [2] The survey found that a proper governance policy defines the organization's risk profile, lays out a process for evaluating and prioritizing risks, and ensure that the process is followed. According to the report, the structure of the oversight process appears less important to the policy's success than the organization's commitment to the policy through expertise, resources, and engagement.

We hope you find this information useful.

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Attachment

endnotes

[1] The Senior Supervisors Group is comprised of seven supervisory agencies from five countries, including the French Banking Commission, the German Federal Financial Supervisory Authority, the Swiss Federal Banking Commission, the U.K. Financial Services Authority, and the U.S. Office of the Comptroller of the Currency, SEC, and Federal Reserve. Their report, Observations of Risk Management Practices during the Recent Market Turbulence (March 6, 2008), is available on the SEC's website at: http://www.sec.gov/news/press/2008/report030608.pdf.

[2] See Governance, risk, and compliance in financial services, A briefing paper from the Economist Intelligence Unit, sponsored by Oracle (June 2008), which is available online at: http://a330.g.akamai.net/7/330/25828/20080625144856/graphics.eiu.com/upload/Oracle_GRC.pdf.